From: John Scanlon

Subject: Reg I I - Debit card Interchange

Comments:

Date: Feb 14, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
Name: John Scanlon
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country:
Zip:
PostalCode:

Comments:

With respect to the allowable costs included in the determination of "Reasonable and proportional interchange transaction fees" in Section 253.3, I believe the Board's proposal offends any rational understanding of economics and fails to meet the statutory requirement to determine if interchange rates are "reasonable and proportional" to the costs associated with a transaction. The Board's Notice of Proposed Rule Making casually dismisses numerous categories of costs associated with debit transactions ranging from reward point costs, to fraud costs, to fixed costs (which the Board does not even take the time to enumerate). For the record, "fixed costs" in this case could include debit program management, card issuance and replacement, customer service, information security, compliance and risk management, disaster recovery, marketing and other costs which are inherently part of a debit transaction. There is no economic justification for excluding these real and significant
costs from the definition of "allowed costs", particularly when the Board itself in its role overseeing the safety and soundness of financial institutions would not allow banks to continue offering debit cards without incurring these costs. The "Dodd-Frank" act requires the Board to understand the costs associated with debit transactions and to determine whether interchange rates are "reasonable and proportional". This Act does not authorize the Board to exclude costs that are associated with debit transactions in order to promote lower interchange rates or other policy preferences of the Board. While the Act does direct the Board to consider certain categories of costs, it neither restricts the Board to only considering those cost categories nor authorizes the Board to ignore any category of debit transaction related costs. The Board's stated rationale for excluding a large percentage of the costs of debit transactions from their analysis ("the Board also recognizes that issuers
have other sources, besides interchange fees, from which they can receive revenue to help cover the costs of debit card operations") is offensive and not

authorized by the Act. The Board acknowledges that these costs are related to debit card transactions and then excludes them from the analysis based upon the assumption of some other source of profits not specified. To my knowledge, the Board did no research to substantiate its claim that all debit card issuers (as defined) have such an alternative source of profits. Even if the Board did this research, I see no rationale under "Dodd-Frank" for the Board to mandate that debit cards are unprofitable to issuers. I am aware of certain industries such as utilities which are subject to heavy price regulations to curtail potential monopolistic pricing. However, even in these industries, pricing is set to virtually ensure profitability for these firms. I am unaware of any other part of the U.S. economy where regulators are allowed to restrict pricing and deny large pools of legitimate costs from price setting regulations such that entire product lines as they exist today would be rendered unprofitable. How does this help the American economy or the American banking system?